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INFORMED BUDGETEER

CBO PROJECTIONS OF DEBT HELD BY THE PUBLIC
Assuming CBO March 1999 Baseline, With On-Budget Surpluses Reduced to Zero After 2000
($ in Billions)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Debt held by the Public, beginning of year	3720	**3628**	**3512**	**3383**	3245	**3100**	2945	**2775**	2595	**2404**	2203
Changes											
Surplus[A]	-111	-133	-145	-153	-162	-171	-184	-193	-204	-212	-218
Other	19	16	16	16	16	15	14	13	12	11	11
Total	-92	-117	-129	-137	-146	-156	-170	-180	-192	-201	-207
Debt held by the Public, end of year	3628	3512	3383	3245	3100	2945	2775	2595	2404	2203	1997

[A]Surpluses are shown here as negative because they decrease the debt. Figures in bold are limits specified in the lockbox legislation for those dates.

DEBT LEVELS - UP CLOSE AND PERSONAL

- To determine the appropriate debt levels for the Social Security Surplus Preservation and Debt Reduction Act (the "lockbox" legislation), the sponsors of the measure asked CBO to project levels of debt held by the public, using their March 1999 baseline as a starting point and further assuming that on-budget surpluses are maintained at zero after 2000. Results are shown in table above.

- Over the projection period (2000-2009), baseline off-budget surpluses total $1.780 trillion. Debt held by the public declines by $1.631 trillion over the same period, from $3.628 trillion to $1.997 trillion. Why does debt held by the public decline by $149 billion less than total off-budget surpluses?

  - $5 billion is due to financing a projected on-budget baseline deficit in the year 2000;
  - $4 billion is due to rounding; and,
  - $140 billion is due to "other" changes, which are explained below.

- The change in the level of debt held by the public in any one year closely parallels the total deficit or surplus, which in the lock box is (in years after 2000) assumed to equal the amount of the off-budget surplus. However, other factors known as "other means of financing" also affect the government's need to borrow from the public.

- Those factors include changes in cash balances and seigniorage, which together total about $1 billion per year, and other changes. The largest other change reflects the capitalization of financing accounts used for credit programs. Direct student loans, rural housing programs, loans by the SBA, and other credit programs require the government to disburse money up front to be paid back later. The deficit or surplus reflects only the estimated *subsidy* costs of such programs, not the total up-front funding needed to make the loan.

- Because the amount of the loans being disbursed is larger than the repayments and interest flowing back into the financing accounts, the government's annual borrowing needs are $11 to $18 billion higher than they otherwise would be.

- Also note that the last debt level listed in the lockbox legislation is $2.404 trillion, which is the level expected at the beginning of 2008. By the end of 2009, debt held by the public (under this scenario) falls to $1.997 trillion.

GETTING CURRENT LEVEL CURRENT

- Congress has passed the FY2000 Budget Resolution (H.Con.Res. 68) and the Budget Committee has begun to enforce budget rules for the applicable time periods - 2000, 2000-2004, and 2000-2009. However, 1999 is not over yet. How do we enforce the budget rules for 1999?

- Section 209 of H.Con.Res. 68 stipulates that 1999 budget levels submitted pursuant to S. Res. 312 (passed on October 21, 1998, deemed the 1999 Budget Resolution for Senate purposes) and any authorized revisions be considered the appropriate budget levels for 1999.

- On May 4, Senator Domenici submitted for the Record the revised 1999 appropriation caps and the revised 1999 authorizing committee direct spending levels (see table below).

Senate Committee Budget Authority & Outlay Allocations
Pursuant to Sect. 302 of the Congressional Budget Act
(FY1999, $ in millions)

Committee	Direct Spending Jurisdiction Budget Authority	Outlays
Appropriations		
Defense	279,891	271,403
General Purpose	287,157	273,901
Violent crime reduction	5,800	4,953
Highways	0	21,885
Mass Transit	0	4,401
Mandatory	299,159	291,731
Subtotal Appropriations	872,007	868,274
Agriculture	8,931	6,362
Armed Services	48,285	48,158
Banking	9,200	3,182
Commerce	8,119	5,753
Energy	2,185	1,263
Environment	28,591	1,365
Finance	694,516	688,064
Foreign Relations	10,908	12,141
Govt. Affairs	58,113	57,036
Judiciary	4,954	4,528
Labor	8,000	7,525
Rules	93	56
Veterans'	1,204	1,428
Indian Affairs	492	485
Small Business	0	(220)
Unassigned	(303,086)	(294,966)
Total	**1,452,512**	**1,411,334**

- The adjusted discretionary caps update the levels set in S. Res. 209 (which provided section 302 allocations for 1999 to the Committee on Appropriations in April 1998) for designated emergency appropriations and other authorized adjustments. The Budget Committee refers to these levels to enforce the 302(f) point of order under the Budget Act.

- The adjusted authorizing committee levels represent the allowable level of direct spending under each committee's jurisdiction. The authorizing committee levels are used to enforce the 302(f) point of order, which makes it out of order to consider legislation that would cause a committee to exceed its allocation, requiring a 60-vote majority to waive.

- The levels were adjusted to correspond to each committee's current level - that is, the 1999 budgetary impact of all legislation enacted in the 105th Congress is accounted for in the adjusted levels. At this time, no authorizing committee is either above or below its 1999 allocation; therefore, it is not in order to consider legislation increasing direct spending for 1999 for any committee.

NO APRIL REVENUE SURPRISE

- April is a very important month for revenues, accounting for roughly 15 percent of the fiscal year's total inflows. April is boosted by individual year-end tax payments and by corporate quarterly tax filings.

- Analysts have become particularly attuned to April's inflows in light of the fact that they have yielded large so-called "revenue surprises" in recent years which have greatly boosted our surplus projections. However, the streak was broken this year — there was no April revenue surprise this time around.

- April's revenue intake was only $5 billion higher than last year. For the fiscal year as a whole, revenues are tracking perfectly with CBO's forecasts, as can be seen in the following table.

Federal Revenues
($ in Billions)

	April	Fiscal Year to Date	CBO's Full Year Projection
FY1999	266.5	1,080.5	$1,814.6
FY1998	261.0	1,025.9	$1,721.8
Growth Rate 99/98	2.1%	5.3%	5.4%

- Given the economy's and stock market's strength, it may seem surprising that April revenues were not higher. Several factors are at play.

- There was strength in withheld (reflecting strong income growth) and non-withheld tax payments stemming from the April 15th filing. However, this strength was mostly offset by lower corporate tax receipts and an exceptionally large amount of individual and corporate tax refunds.

- Corporate tax payments for the fiscal year to date are down relative to last year, due in part to last year's global financial turbulence which hurt manufacturers and financial firms alike.

- Individual tax refunds rose 22 percent over last year (adjusting for calendar distortions), due in part to the child and education tax credits enacted in the 1997 Budget Agreement.

MENU FOR STAYING WITHIN THE CAPS CONTINUED...

- On April 30, CBO released its nearly perennial publication with a much larger menu of savings options, now retitled as *Maintaining Budgetary Discipline: Spending and Revenue Options*. Last week the Bulletin highlighted a few of those options and continues this week with several options from other budget functions.

- Impose User Fees on the Inland Waterway System. User fees on the nation's inland waterways are derived from taxes on fuel consumed by barges operating on the system. These fees currently contribute nothing to the operation and maintenance (O&M) of the existing system and pay no more than half of the expenses of new construction. CBO estimates budget savings of $170 million in 2000 and nearly $4.8 billion over ten years were fees raised to recover fully both O&M and construction costs, not only saving money but encouraging a more efficient use of the system itself.

- Eliminate the Economic Development Administration (EDA). EDA provides grants for local economic development, the largest category of which remains public works projects. Many critics believe that local development should be provided by state and local governments, especially given EDA's overly broad eligibility criteria, disproportionate distribution of funds to public works projects, and unfavorable assessment in the 1993 National Performance Review. Eliminating EDA would save $23 million in 2000 and nearly $3 billion over the next ten years.

- Eliminate Electrification and Telephone Credit Subsidies Provided by the Rural Utilities Service. The Rural Utilities Service (RUS) offers financial assistance in subsidized loans and grants to electric and telephone companies serving primarily rural areas. Over 95 % of rural America has electric service. In addition, the areas served by companies subsidized by RUS are generally much larger than the 1,500 inhabitants, as envisioned when the program was created, and most RUS borrowers use some private financing. Eliminating this subsidy would save $43 million annually over the next ten years, for a total of $430 million.

- Reduce the Reimbursement Rate Paid to Private Insurance Companies in the Department of Agriculture's Crop Insurance Program. Insurance policies that farmers buy through the Federal Crop Insurance Program are sold and serviced by private insurance firms, which receive an administrative cost reimbursement according to the total amount of insurance premiums they handle. Firms also share underwriting risk with the federal government, and overall they typically gain regardless of the level of crop losses nationwide. The 105th Congress reduced the reimbursement rate from 27% of total premiums to 24.5 %. An additional reduction in that rate to 22.5 % would result in $25 million in savings in 2000, and $306 million over the next ten years.

ECONOMICS

THE DEBATE OVER DOLLARIZATION

- There has been increasing debate within some Latin American nations over the desirability of dollarizing their economies -- ie jettisoning their domestic currencies and adopting the US dollar. The Senate Banking Committee and the Joint Economic Committee have highlighted this debate in a recent hearing and report.

- By agreeing to use the dollar as its unit of exchange, a nation eschews its own central bank and adopts US monetary policy as its own. Dollarization is the "ultimate" pegged exchange rate — as such, currency risk is eliminated and the nation's interest rates should fall relative to current levels.

- While greater financial stability and lower interest rates holds great promise for emerging nations, there are always trade-offs. In this case, the emerging nation loses the ability to use monetary policy to offset swings in the real economy.

- The decision to dollarize is up to the individual nations. The US Treasury is staying neutral in this debate, however, it has taken pains to stress that the Federal Reserve will not alter interest rates for a dollarized nation's sole benefit, nor will it serve as its lender of last resort.

- It is crucial to make these preconditions known up front. Otherwise, political pressures could mount on the Fed to take action to help dollarized nations if their economies soured. Any such action on the Fed's part would greatly diminish its credibility and would likely push up US interest rates across the board.

- Dollarizing may make sense for some countries if they are totally unable to mount a credible monetary policy on their own. However, there is an important thing to remember with any currency arrangement. Ultimately, good domestic policies are needed for economic and financial stability. If these are lacking, no arrangement will prevent a nation from suffering the consequences.